

DAFTER TOWNSHIP, CHIPPEWA COUNTY

STATE OF MICHIGAN

AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

March 31, 2004

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Dafter Township		County Chippewa
Audit Date March 31, 2004	Opinion Date September 7, 2004	Date Accountant Report Submitted to State: November 3, 2004		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

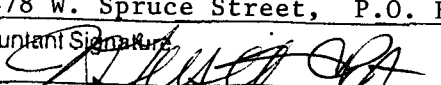
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ yes ☐ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Gillett, Halvorse & Leonhardt, CPA, PC			
Street Address 478 W. Spruce Street, P.O. Box 437	City Sault Ste. Marie	State MI	ZIP 49783
Accountant Signature 			

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MEMBER OF THE MICHIGAN
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INDEPENDENT AUDITORS' REPORT

Township Board
Township of Dafter
Dafter, Michigan 49724

We have audited the accompanying combined statement of assets and liabilities arising from cash transactions of Dafter Township, Dafter, Michigan, as of March 31, 2004, and the related combined statement of revenues collected, expenditures paid and changes in cash basis fund balances for the year then ended, as listed in the table of contents. These financial statements are the responsibility of Dafter Township, Dafter, Michigan, management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in the Summary of Significant Accounting Policies, Note 1, the Township prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Michigan, which is a comprehensive basis of accounting other than generally accepted accounting principles.

The Township has not maintained a record of its general fixed asset account group and accordingly, a general fixed asset account group statement required by the cash basis of accounting and budget laws of the State of Michigan is not included. The amount that should be recorded in the general fixed asset account group is not known.

The Township of Dafter has a population of less than 4,000 people and is therefore required by Act 2, Public Acts of 1968 of the State of Michigan to have an independent audit only biennially. The preceding year has thus not been audited; however, we have performed various test of the opening balances.

In our opinion, except for the effect of the omission described in the fourth paragraph, the combined financial statements listed in the table of contents present fairly, in all material respects, the assets, liabilities, and cash basis fund balances of Dafter Township as of March 31, 2004, arising from cash transactions, and its revenues collected, expenditures paid, and changes in cash basis fund balances for the year then ended, on the basis of accounting described in Note 1 - Summary of Significant Accounting Policies.

This report is intended solely for the information and use of the governing body and management of Dafter Township, Dafter, Michigan, and for filing with the State of Michigan. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Our audit was made for the purpose of forming an opinion on the financial statements of Dafter Township, Dafter, Michigan, taken as a whole. The other financial information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our report of auditors' communication and comments and recommendations is included herein and forms a part of this report.

Lillett Halverson & Lemhardt PC

Certified Public Accountants

September 07, 2004
Sault Ste. Marie, Michigan

DAFTER TOWNSHIP

COMBINED STATEMENT OF ASSETS AND LIABILITIES ARISING FROM CASH TRANSACTIONS
ALL FUND TYPES

March 31, 2004

	GOVERNMENTAL FUND TYPES		FIDUCIARY FUND TYPE	
	GENERAL FUND	SPECIAL REVENUE FUND	TRUST AND AGENCY FUNDS	TOTAL (MEMORANDUM ONLY)
=====				
ASSETS				
Cash and investments	\$309,671	\$ (2,804)	\$38,517	\$345,384
Taxes receivable	4,205	-0-	-0-	4,205
Due from other funds	8	-0-	-0-	8
	-----	-----	-----	-----
TOTAL ASSETS	\$313,884	\$ (2,804)	\$38,517	\$349,597
	=====	=====	=====	=====
LIABILITIES AND CASH BASIS FUND BALANCES				
LIABILITIES				
Deferred revenue - taxes receivable	\$ 4,205	\$ -0-	\$ -0-	\$ 4,205
Due to other funds	-0-	-0-	8	8
	-----	-----	-----	-----
TOTAL LIABILITIES	\$ 4,205	\$ -0-	\$ 8	\$ 4,213
CASH BASIS FUND BALANCES				
Unreserved undesignated	\$309,679	\$ (2,804)	\$ -0-	\$306,875
Reserved for pension	-0-	-0-	38,509	38,509
	-----	-----	-----	-----
TOTAL CASH BASIS FUND BALANCES	\$309,679	\$ (2,804)	\$38,509	\$345,384
	-----	-----	-----	-----
TOTAL LIABILITIES AND CASH BASIS FUND BALANCES	\$313,884	\$ (2,804)	\$38,517	\$349,597
	=====	=====	=====	=====

See accompanying notes and auditors' report.

DAFTER TOWNSHIP

COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID AND CHANGES IN
CASH BASIS FUND BALANCES - ALL GOVERNMENTAL FUND TYPES

For the year ended March 31, 2004

	GENERAL FUND	SPECIAL REVENUE FUND	TOTAL (MEMORANDUM ONLY)
Revenues Collected:			
Taxes	\$ 38,744	\$ -0-	\$ 38,744
Licenses and fees	15,722	-0-	15,722
Federal grants	-0-	8,341	8,341
State grants	98,367	-0-	98,367
Contributions from local units	-0-	5,755	5,755
Charges for services	122	-0-	122
Interest and rents	4,402	109	4,511
Other	4,004	-0-	4,004
Total Revenues Collected	\$161,361	\$ 14,205	\$175,566
Expenditures Paid			
Legislative	\$ 3,568	\$ -0-	\$ 3,568
General government	55,202	-0-	55,202
Public safety	3,791	65,055	68,846
Public works	90,892	-0-	90,892
Culture and recreation	100	-0-	100
Other functions	20,568	-0-	20,568
Total Expenditures Paid	\$174,121	\$ 65,055	\$239,176
EXCESS (DEFICIENCY) OF REVENUES COLLECTED OVER EXPENDITURES PAID	\$ (12,760)	\$ (50,850)	\$ (63,610)
Other Financing Sources (Uses)			
Operating transfers in	\$ -0-	\$ 37,000	\$ 37,000
Operating transfers out	(37,000)	-0-	(37,000)
Total Other Financing Sources (Uses)	\$ (37,000)	\$ 37,000	\$ -0-
EXCESS (DEFICIENCY) OF REVENUES COLLECTED AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES PAID	\$ (49,760)	\$ (13,850)	\$ (63,610)
CASH BASIS FUND BALANCES - APRIL 1, 2003	359,439	11,046	370,485
CASH BASIS FUND BALANCES - MARCH 31, 2004	\$309,679	\$ (2,804)	\$306,875

See accompanying notes and auditors' report.

DAFTER TOWNSHIP

COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID AND CHANGES IN
CASH BASIS FUND BALANCES - GENERAL AND SPECIAL REVENUE FUNDS - BUDGET AND ACTUAL

For the year ended March 31, 2004

=====			
	GENERAL FUND		

	BUDGET	ACTUAL	VARIANCE UNDER (OVER)
=====			
Revenues Collected			
Taxes	\$ 37,000	\$ 38,744	\$ (1,744)
Licenses and fees	21,300	15,722	5,578
Federal grants	-0-	-0-	-0-
State grants	85,300	98,367	(13,067)
Contributions from local units	-0-	-0-	-0-
Charges for services	200	122	78
Interest and rents	2,000	4,402	(2,402)
Other	3,500	4,004	(504)
	-----	-----	-----
Total Revenues Collected	\$ 149,300	\$161,361	\$ (12,061)
Expenditures Paid			
Legislative	\$ 4,280	\$ 3,568	\$ 712
General government	75,932	55,202	20,730
Public safety	7,955	3,791	4,164
Public works	223,743	90,892	132,851
Culture and recreation	600	100	500
Other functions	21,200	20,568	632
	-----	-----	-----
Total Expenditures Paid	\$ 333,710	\$174,121	\$ 159,589
	-----	-----	-----
EXCESS (DEFICIENCY) OF REVENUES COLLECTED OVER EXPENDITURES PAID	\$ (184,410)	\$ (12,760)	\$ (171,650)
Other Financing Sources (Uses)			
Operating transfers in	\$ -0-	\$ -0-	\$ -0-
Operating transfers out	-0-	(37,000)	(37,000)
	-----	-----	-----
Total Other Financing Sources (Uses)	\$ -0-	\$ (37,000)	\$ (37,000)
	-----	-----	-----
EXCESS (DEFICIENCY) OF REVENUES COLLECTED AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES PAID	\$ (184,410)	\$ (49,760)	\$ (134,650)
CASH BASIS FUND BALANCES - APRIL 1, 2003	359,439	359,439	-0-
	-----	-----	-----
CASH BASIS FUND BALANCES - MARCH 31, 2004	\$ 175,029	\$309,679	\$ (134,650)
	=====	=====	=====

See accompanying notes and auditors' report.

SPECIAL REVENUE FUND			TOTAL (MEMORANDUM ONLY)		
BUDGET	ACTUAL	VARIANCE UNDER (OVER)	BUDGET	ACTUAL	VARIANCE UNDER (OVER)
\$ -0-	\$ -0-	\$ -0-	\$ 37,000	\$ 38,744	\$ (1,744)
-0-	-0-	-0-	21,300	15,722	5,578
8,341	8,341	-0-	8,341	8,341	-0-
500	-0-	500	85,800	98,367	(12,567)
5,755	5,755	-0-	5,755	5,755	-0-
-0-	-0-	-0-	200	122	78
100	109	(9)	2,100	4,511	(2,411)
600	-0-	600	4,100	4,004	96
\$ 15,296	\$ 14,205	\$ 1,091	\$ 164,596	\$175,566	\$ (10,970)
\$ -0-	\$ -0-	\$ -0-	\$ 4,280	\$ 3,568	\$ 712
-0-	-0-	-0-	75,932	55,202	20,730
65,900	65,055	845	73,855	68,846	5,009
-0-	-0-	-0-	223,743	90,892	132,851
-0-	-0-	-0-	600	100	500
-0-	-0-	-0-	21,200	20,568	632
\$ 65,900	\$ 65,055	\$ 845	\$ 399,610	\$239,176	\$ 160,434
\$ (50,604)	\$ (50,850)	\$ 246	\$ (235,014)	\$ (63,610)	\$ (171,404)
\$ 29,900	\$ 37,000	\$ (7,100)	\$ 29,900	\$ 37,000	\$ (7,100)
-0-	-0-	-0-	-0-	(37,000)	(37,000)
\$ 29,900	\$ 37,000	\$ (7,100)	\$ 29,900	\$ -0-	\$ 29,900
\$ (20,704)	\$ (13,850)	\$ (6,854)	\$ (205,114)	\$ (63,610)	\$ (141,504)
11,046	11,046	-0-	370,485	370,485	-0-
\$ (9,658)	\$ (2,804)	\$ (6,854)	\$ 165,371	\$306,875	\$ (141,504)
=====	=====	=====	=====	=====	=====

DAFTER TOWNSHIP

STATEMENT OF CHANGES IN PLAN NET ASSETS ON A CASH BASIS
PENSION TRUST FUND

For year ended March 31, 2004

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Additions
  Contributions                                $12,280
  Net unrealized gain on investments           6,935
                                           -----
      Total Additions                          $19,215

Deductions
  Administrative and other expenses           $   461
                                           -----
Net Increase in Plan Assets                  $18,754

Fund Balance Reserved for Pension Benefits - April 1, 2003           19,755
                                           -----
Fund Balance Reserved for Pension Benefits - March 31, 2004        $38,509
                                           =====
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See accompanying notes and auditors' report.

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Dafter Township is a regular law Michigan township with a population of 1,083. The Township is governed by a five member board of officials elected by the Township voters.

A. REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present the Township (primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. In accordance with generally accepted accounting principles, there were no component units to be included in these financial statements.

B. BASIS OF PRESENTATION

The accounts of the Township are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The financial activities of the local unit are recorded in separate funds categorized as follows:

General Fund

This fund is used to account for all financial resources except those provided for in another fund. Revenues are primarily derived from property taxes, State and Federal aid and charges for services to provide for the administration and operation of: (1) general Township, governmental departments, boards and commissions; (2) law enforcement; and (3) health welfare. This fund includes the general operating expenditures of the Township.

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) generally derived from state and federal grants, General Fund

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2004

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. BASIS OF PRESENTATION (CONTINUED)

Special Revenue Funds (Continued)

appropriations and charges for services, which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements. The Fire and Ambulance Fund is the only special revenue fund of Dafter Township.

Fiduciary Fund

Trust and agency funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Dafter Township has two fiduciary funds, one agency fund for tax collections and one pension trust fund for the defined contribution pension plan.

C. MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures (expenses) are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Dafter Township uses a financial resource measurement focus and the cash basis of accounting.

The accounting books and records of Dafter Township are maintained on the cash basis of accounting during the year and the financial statements have been prepared directly from these books and records. The cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. Under the cash basis certain revenues and related assets are recognized when received rather than when they are measurable and available and certain expenses are recognized when paid rather than when the obligation is incurred. The aforementioned statements do not, therefore, give affect to accounts receivable, accounts payable and accrued items. Generally accepted accounting principles require the modified accrual basis of accounting.

The Pension Trust Fund of Dafter Township is presented at fair value of the plan assets. Fair value is determined using the market value of the plan as of March 31, 2004.

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2004

=====

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. PROPERTY TAXES

The Township's annual property tax on real and personal property within the Township is levied on December 1 and is based on the assessed valuation of property as of the preceding December 31. Taxable valuation, which is required by the law to be 50% of current market value, is established by the Township and is subject to possible equalization by the State. In addition to collecting their own taxes, the Township also acts as collection agent for all overlapping governments in the Township, which includes school districts, intermediate school districts and the County. Property taxes are recorded as revenue on the cash basis when collected. The total current property taxes collected for Dafter Township for the year were \$34,291 which is recorded in the General Fund.

E. PROPERTY TAX MILLAGE

The Townships property tax is levied on each December 1 on the State equalized valuation of property located in the Township as of the preceding December 31.

Although the Township's 2003 tax is levied and collectible on December 1, 2003, it is the Township's policy to recognize revenue from the current tax levy when received.

The 2003 State equalized valuation of Dafter Township totaled \$30,970,200 and a taxable value of \$23,649,400 on which taxes levied consisted of 1.6280 mills for the Township operating purposes.

F. BUDGETS

Budgets were adopted by Dafter Township for the General and Special Revenue Fund. The budgets are adopted after holding a public hearing and approving the budgets before any business is transacted for the year. In addition, the board makes amendments to the budget throughout the year as they deem necessary. The budgets were prepared on the cash basis. Revenues are budgeted on a major source basis in the year receipt is expected, and expenditures are budgeted on an activity basis in the year payment is expected to be made. The financial statements present comparisons of actual revenue collected and expenditures paid to this budget.

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2004

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. CASH AND INVESTMENTS

Dafter Township's cash consists of checking accounts, savings accounts, and certificates of deposit. Dafter Township's investments consist of insurance annuities for the pension trust fund.

H. OPERATING TRANSFERS

During the course of normal operations, the Township has transactions between funds, including expenditures and transfers of resources to provide services, construct assets and service debt. The accompanying financial statements generally reflect such transactions as operating transfers.

I. DUE TO AND DUE FROM

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which the transactions are executed.

J. GENERAL FIXED ASSETS

The Township does not maintain a General Fixed Asset Account Group as required by generally accepted accounting principles. Purchases of fixed assets are recorded as expenditures in the General and Special Revenue Fund types at the time of acquisition. These assets should be capitalized at cost and recorded in the General Fixed Assets Account Group.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the government. No depreciation is taken on these assets.

K. TOTAL COLUMNS ON COMBINED STATEMENTS

Total columns on the Combined Statements are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or change in financial position in conformity

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2004

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. TOTAL COLUMNS ON COMBINED STATEMENTS (CONTINUED)

with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

L. USE OF ESTIMATES

The preparation of financial statements in conformity with the cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimated.

NOTE 2 - BUDGET AMENDMENT

Once approved, the Township may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Authorized budget amendments were approved as follows:

<u>FUND</u>	<u>AMOUNT</u>
General Fund	
General Government	
Treasurer	\$ 1,732
Board of review	400
Elections	4,000
Public Works	
Highway, streets and bridges	(6,132)
Cultural and Recreation	
Parks and recreation	(1,500)
Other functions	
Employee benefits	500
Insurance and bonds	1,000
Special Revenue Fund	
Public safety	29,700

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2004

NOTE 3 - LEGAL COMPLIANCE

Excess of Expenditures over Appropriations in Budgeted Funds

The Uniform Budgeting and Accounting Act P.A. 2 of 1968 as amended (MCL 141.421 et seq.), provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. Dafter Township's actual expenditures and budgeted expenditures have been shown on an activity basis. The approved budgets for Dafter Township for the budgeted funds were adopted to the activity level.

During the year, Dafter Township incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated as follows:

Fund	Appropriated	Expended	Variance
-----	-----	-----	-----
General Fund			
General Government			
Clerk	\$10,500	\$11,492	\$ 922
Treasurer	13,332	13,360	28
Other Financing Uses			
Transfers out	29,900	37,000	7,100

Failure to adopt a balanced budget

A balanced budget must be presented to the legislative body and the legislative body must pass a balanced appropriations act per the Uniform Budgeting and Accounting Act, P.A. 2 of 1968, as amended by P.A. 621 of 1978. Dafter Township, with amendments, adopted a deficit budget for the special revenue fund for the year ended March 31, 2004.

Accumulated Fund Deficit

Dafter Township has an accumulated fund balance deficit in the Special Revenue - Fire and Ambulance Fund of \$2,804.

Public Act 275 of 1980 (MCL 141.921) requires that the Township file a deficit elimination plan with the Michigan Department of Treasury within 90 days after the end of the fiscal year for each fund that ended that year in a deficit condition. Dafter Township has not filed the required plan. Dafter

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2004

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NOTE 3 - LEGAL COMPLIANCE (CONTINUED)

Township feels the following addresses the deficit and will be filing the plan shortly:

Special Revenue - Fire and Ambulance Fund is to receive an additional appropriation from the General Fund and both funds budgets have been amended to reflect this increase for the year ended March 31, 2005.

NOTE 4 - CASH DEPOSITS AND INVESTMENTS

Dafter Township's cash and investments as presented in the balance sheet are made up of the following:

Cash in checking	\$ 97,321
Cash in savings	175
Certificates of deposit	209,379
Pension trust fund	38,509

Total	\$345,384
	=====

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of Federally insured banks, credit unions and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase, and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Michigan law prohibit security in the form of collateral, surety bonds, or other forms for the deposit of public money. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township board has authorized five banks as their designated financial institutions. The investment policy adopted by the board in accordance with Act 196 PA 1997 has authorized investments in certificates of deposit, savings accounts or depository receipts of financial institution, but only if the financial institution is eligible to be a depository of funds meeting all criteria as a depository of public funds contained in state law.

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2004

NOTE 4 - CASH DEPOSITS AND INVESTMENTS (CONTINUED)

Cash Deposits

According to GASB Statement No. 3, risk disclosures for cash deposits are as follows:

	Carrying Amount	Bank Amount
Insured (FDIC)	\$288,539	\$291,217
Uninsured and uncollateralized	18,336	45,519
Total Deposits	\$306,875	\$336,736

The amount reported as bank amount represents the balance per financial institutions which excludes any deposits in transit and outstanding checks. The carrying amount represents the amount as reported for the Township's financial statements. Also, during the year the Township had funds in excess of \$100,000 on deposit in a particular financial institution which would not have been covered by federal depository insurance.

Investments

In accordance with GASB 3 risk disclosures for Municipal Investment and insurance annuities are non risk categorized.

	Carrying Amount	Market Value
Non-risk - categorized		
Pension Trust Fund		
Insurance annuities	\$ 38,509	\$ 38,509

Dafter Township has investments with the Manufacturers Life Insurance Company (USA) for the Defined Contribution Pension Trust Fund which is presented at fair value of the plan assets.

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2004

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables at March 31, 2004, are as follows:

Fund	Interfund Receivable	Fund	Interfund Payable
-----	-----	-----	-----
General	\$ 8	Fiduciary - Tax	\$ 8
	===		===

NOTE 6 - TAXES RECEIVABLE AND DEFERRED PROPERTY TAX REVENUE

A receivable due from Chippewa County in the amount of \$4,205 has been recorded for settlement of 2003 delinquent real property taxes. This amount is recorded as taxes receivable in the General Fund.

NOTE 7 - DEFINED CONTRIBUTION PLAN

Dafter Township maintains a defined contribution plan through Burnham & Flower Agency, Inc. using the Manufacturers Life Insurance Company (USA). The plan name is the Manulife Financial Defined Contribution Pension Plan for Governmental Employees. The plan administrator is the clerk of Dafter Township. The plan is a money purchase pension plan also called a defined contribution, individual account plan because contributions to the plan are fixed and the retirement benefit is that which the total amount of contributions and earnings (money) will provide (purchase) for each employee.

Participants in the plan are all elected officials of the Township who have attained age 18 and not more than age 75. Currently there are six people in the plan.

The Township board has a policy that permits the Township to have a defined contribution plan which they can amend. They have designated the clerk as plan administrator.

Contributions to the plan for elected officials are made by Dafter Township according to the following schedule:

<u>Annual Compensation</u>	<u>Annual Contribution</u>
Less than \$500.00	\$100.00
at least \$500.00 but less than \$1,000.00	\$300.00
at least \$1,000.00 but less than \$1,500.00	\$500.00
at least \$1,500.00 but less than \$2,000.00	\$700.00
at least \$2,000.00 but less than \$3,000.00	\$900.00

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2004

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NOTE 7 - DEFINED CONTRIBUTION PLAN (CONTINUED)

For compensation in excess of \$3,000.00, \$200.00 is added for each \$1,000.00 of additional annual compensation.

The contributions for the plan year were \$ 7,365 by Dafter Township, \$4,915 by employees for a total contribution of \$12,280 for the year.

The funds of the Dafter Township defined contribution pension plan are invested in Manulife Financial general account at interest rates which are guaranteed if held to maturity. These accounts invest primarily in federal and other governmental bonds, corporate bonds and commercial mortgages and are presented at fair market value on the cash basis. During the year, the Township changed the pension plan year to coincide with the Township fiscal year.

NOTE 8 - POSTEMPLOYMENT

Other than the pension benefits described in Note 7, Dafter Township does not provide any postemployment benefits and, therefore, no accrual has been recorded for these benefits as of March 31, 2004.

NOTE 9 - RISK MANAGEMENT

Dafter Township is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as workmens compensation benefits provided to employees.

The Township participates in the Michigan Township Participating plan for general liability, property loss, automobile, professional, public official errors and omissions liabilities. This plan is a self insurance risk association operating within the State of Michigan pursuant to Act 138, Michigan Public Acts of 1982. This plan through its risk manager, secures insurance policies or reinsurance treaties to cover the risks undertaken on behalf of the Township above the \$100 deductible amount. The Township pays an annual premium of \$7,453 for this plan. The plan has a maximum liability for general liability of \$3,000,000, wrongful acts of \$2,000,000 and automobile liability of \$1,000,000.

Therefore, the Township has no additional liabilities beyond the contribution made to the Michigan Township Participating Plan for general liability, property loss, automobile, professional, public official error and omissions liabilities as it is covered by insurance policies or reinsurance treaties obtained by the plan.

In addition, the Township has purchased commercial insurance for workmens compensation benefits.

DAFTER TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

March 31, 2004

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NOTE 9 - RISK MANAGEMENT (CONTINUED)

Settled claims for the insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through insurance during the past year.

NOTE 10 - COMPENSATED ABSENCES

The Township does not have a vacation or a sick leave benefit policy and, therefore, no accrual has been recorded for these benefits as of March 31, 2004.

NOTE 11 - OPERATING TRANSFERS IN AND OPERATING TRANSFERS (OUT)

For the year ended March 31, 2004, the operating transfers are summarized as follows:

	TRANSFERS IN -----	TRANSFERS OUT -----
General Fund	\$ -0-	\$37,000
Special Revenue Fund		
Fire and Ambulance	37,000	-0-
	-----	-----
TOTALS	\$37,000	\$37,000
	=====	=====

O T H E R F I N A N C I A L I N F O R M A T I O N

DAFTER TOWNSHIP

STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID AND CHANGES IN
CASH BASIS FUND BALANCE - GENERAL FUND - BUDGET AND ACTUAL

For the year ended March 31, 2004

	BUDGET	ACTUAL	VARIANCE UNDER (OVER)
Revenues Collected			
Taxes			
Current property taxes	\$ 37,000	\$ 34,291	\$ 2,709
Delinquent property taxes	-0-	4,453	(4,453)
Total Taxes	\$ 37,000	\$ 38,744	\$ (1,744)
Licenses and fees			
Landfill impact fee	\$ 20,000	\$ 14,122	\$ 5,878
Land division	1,300	1,100	200
Licenses	-0-	500	(500)
Total Licenses and Fees	\$ 21,300	\$ 15,722	\$ 5,578
State grants			
Payments in lieu of taxes	\$ 4,300	\$ 4,338	\$ (38)
State revenue sharing	80,000	94,029	(14,029)
Grants	1,000	-0-	1,000
Total State Grants	\$ 85,300	\$ 98,367	\$ (13,067)
Charges for services	\$ 200	\$ 122	\$ 78
Interest and rents			
Interest	\$ 1,000	\$ 3,352	\$ (2,352)
Rents	1,000	1,050	(50)
Total Interest and Rents	\$ 2,000	\$ 4,402	\$ (2,402)
Other			
Refunds and reimbursements	\$ 3,500	\$ 4,004	\$ (504)
Total Revenues Collected	\$ 149,300	\$161,361	\$ (12,061)
Expenditures Paid			
Legislative			
Township board	\$ 4,280	\$ 3,568	\$ 712

See auditors' report.

DAFTER TOWNSHIP

STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID AND CHANGES IN
CASH BASIS FUND BALANCE - GENERAL FUND - BUDGET AND ACTUAL (CONTINUED)

For the year ended March 31, 2004

	BUDGET	ACTUAL	VARIANCE UNDER (OVER)
Expenditures Paid (Continued)			
General government			
Supervisor	\$ 9,000	\$ 7,879	\$ 1,121
Elections	5,600	3,916	1,684
Assessor	13,900	9,351	4,549
Clerk	10,500	11,492	(992)
Board of review	1,500	999	501
Treasurer	13,332	13,360	(28)
Township hall	21,600	7,980	13,620
Auditing	500	225	275
Total General Government	\$ 75,932	\$ 55,202	\$ 20,730
Public safety			
Zoning	\$ 6,600	\$ 3,286	\$ 3,314
Liquor law enforcement	55	55	-0-
Land division	1,300	450	850
Total Public Safety	\$ 7,955	\$ 3,791	\$ 4,164
Public works			
Highways, streets and bridges	\$ 217,798	\$ 87,956	\$ 129,842
Street lights	3,945	1,454	2,491
Refuse	2,000	1,482	518
Total Public Works	\$ 223,743	\$ 90,892	\$ 132,851
Culture and recreation			
Library	\$ 100	\$ 100	\$ -0-
Parks and recreation	500	-0-	500
Total Culture and Recreation	\$ 600	\$ 100	\$ 500
Other functions			
Employee benefits	\$ 12,200	\$ 12,022	\$ 178
Insurance and bonds	9,000	8,546	454
Total Other Functions	\$ 21,200	\$ 20,568	\$ 632
Total Expenditures Paid	\$ 333,710	\$174,121	\$ 159,589

See auditors' report.

DAFTER TOWNSHIP

STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID AND CHANGES IN
CASH BASIS FUND BALANCE - GENERAL FUND - BUDGET AND ACTUAL (CONTINUED)

For the year ended March 31, 2004

	BUDGET	ACTUAL	VARIANCE UNDER (OVER)
EXCESS (DEFICIENCY) OF REVENUES COLLECTED OVER EXPENDITURES PAID	\$ (184,410)	\$ (12,760)	\$ (171,650)
Other financing sources (uses)			
Operating transfers out	-0-	(37,000)	(37,000)
EXCESS (DEFICIENCY) OF REVENUES COLLECTED AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES PAID	\$ (184,410)	\$ (49,760)	\$ (134,650)
CASH BASIS FUND BALANCE - APRIL 1, 2003	359,439	359,439	-0-
CASH BASIS FUND BALANCE - MARCH 31, 2004	\$ 175,029	\$309,679	\$ (134,650)

See auditors' report.

DAFTER TOWNSHIP

COMBINING STATEMENT OF ASSETS AND LIABILITIES ARISING FROM CASH TRANSACTIONS
FIDUCIARY FUND TYPE

March 31, 2004

	TRUST FUND	AGENCY FUND	TOTAL
	PENSION	TAX COLLECTION	(MEMORANDUM
	TRUST FUND	FUND	ONLY)
ASSETS			
Cash and investments	\$38,509	\$ 8	\$38,517
	=====	=====	=====
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Due to other funds	\$ -0-	\$ 8	\$ 8
FUND BALANCES			
Reserved for pension	38,509	-0-	38,509
	-----	-----	-----
TOTAL LIABILITIES AND CASH	\$38,509	\$ 8	\$38,517
BASIS FUND BALANCES	=====	=====	=====

See auditors' report.

DAFTER TOWNSHIP

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
TRUST AND AGENCY FUND - TAX COLLECTION FUND

For the year ended March 31, 2004

	BALANCE APRIL 1 2003	ADDITIONS	DEDUCTIONS	BALANCE MARCH 31 2004
ASSETS				
Cash	\$6,142	\$563,926	\$570,060	\$ 8
	=====	=====	=====	=====
LIABILITIES				
Due to other funds	\$ 346	\$ 34,617	\$ 34,955	\$ 8
Due to other governmental units				
County	2,410	290,612	293,022	0
School districts	3,386	238,697	242,083	0
	-----	-----	-----	-----
TOTAL LIABILITIES	\$6,142	\$563,926	\$570,060	\$ 8
	=====	=====	=====	=====

See auditors' report.



GILLETT, HALVORSEN & LEONHARDT, P.C.

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MEMBER OF THE MICHIGAN
ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF THE AMERICAN
INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Township Board
Township of Dafter
Dafter, MI 49724

We have recently completed our audit of the financial statements of Dafter Township for the year ended March 31, 2004. As required by generally accepted auditing standards, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS

We conducted our audit of the financial statements of Dafter Township in accordance with generally accepted auditing standards. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error are remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the audit must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute, that financial statements are free of material errors or irregularities. The existence of that risk is implicit in the phrase in the audit report, "in our opinion".

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

Auditing standards call for us to inform you regarding the initial selection of, and change in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is lack of authoritative guidance or consensus.

The significant accounting policies are described in Note 1 to the financial statements.

During the year ended March 31, 2004, the Township did not initiate or change any of their significant accounting policies.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility of that future event affecting them may differ markedly from management's current judgment; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

COMMENTS AND RECOMMENDATIONS REGARDING INTERNAL CONTROLS/COMPLIANCE/EFFICIENCY

Our procedures, which were made for the limited purpose described previously, would not necessarily disclose all material weaknesses in the system of internal control. Accordingly, we do not express an opinion on the system of internal control structure of the Township taken as a whole. However, our procedures disclosed the following conditions that we would like to bring to your attention.

CASH AND INVESTMENTS

At year end, the Township had \$45,519 on deposits with financial institutions that are uninsured by federal depository insurance. We recommend that the Township insure all funds.

GENERAL FIXED ASSET ACCOUNT GROUP

The cash basis of accounting and budget laws of the State of Michigan require that a local unit of government maintain a general fixed asset account group. This is a listing of all fixed assets owned by the Township. The Township does not maintain one of these at the present time. We recommend that the Township take a physical inventory and set up a general fixed asset account group. For these assets whose cost cannot be determined, an estimated cost at purchase or donation should readily be made.

BUDGET

During the year, expenditures exceeded the amount appropriated in three instances. Therefore, the Township has not complied with P.A. 621 of 1978, Section 18(1), as amended which states that a local unit of government shall not incur expenditures in excess of the amount appropriated. We recommend the Township monitor the budget and make any necessary adjustments during the year as needed.

BALANCED BUDGET

The Uniform Budgeting and Accounting Act, P.A. of 1968, as amended by P.A. 621 of 1978 provides for a system of uniform procedures to guide the preparation and execution of budgets for local units of government in Michigan. Per this Act, a balanced budget must be prepared and presented to the legislative body and the legislative body must pass a balanced appropriations act. The Township adopted a budget, with amendments, in which the expenditures exceeded the anticipated revenues and beginning fund balance. We recommend that the Township prepare and adopt a balanced budget as required.

ACCUMULATED FUND DEFICITS

Dafter Township has an accumulated fund balance deficit in the Special Revenue - Fire and Ambulance Fund of \$2,804.

Public Act 275 of 1980 (MCL 141.921) requires that the Township file a deficit elimination plan to the Michigan Department of Treasury within 90 days after the end of the fiscal year for each fund that ended that year in a deficit condition. Dafter Township has not filed the required plan. We recommend that Dafter Township set up an additional appropriation for the year ended March 31, 2005, from the General Fund to the Special Revenue Fund - Fire and Ambulance and amend both the General Fund and Special Revenue Fund - Fire and Ambulance budgets to reflect this change.

Once the appropriation is approved and the budgets are amended, we recommend that the Township transfer the Funds from the General Fund to the Special Revenue Fund - Fire and Ambulance Fund to eliminate the deficit.

SEGREGATION OF DUTIES

Separation of duties between persons who authorize transactions and persons who have control over the related assets does not exist to the extent possible in larger entities with several employees involved in the accounting process.

The least desirable accounting system is one in which the employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of accounting duties substantially increases control over errors without duplication of effort.

The desired separation of duties cannot be achieved with only two employees involved. The careful and consistent oversight provided by the Township Board appears to offset the inability to separate various accounting functions and should be continued. The Township Board maintains monitoring of current operations. Operating results are reviewed monthly which provides significant oversight for the inspection of any irregularities and discrepancies. The cost for additional staff to enable separation of duties is likely not economically justified and therefore, the Township Board's oversight is assisting in this internal control function. Our finding is intended only to point out that this element of internal control separation of duties does not, and at present, cannot exist.

In addition to the above reportable conditions, we became aware of some matters that are opportunities for strengthening internal controls and operating efficiency.

Expenditure invoices should include date paid and check number to ensure duplicate payment is not made. Also, bank statements should be balanced on a monthly basis.

TAX COLLECTION FUND

The treasurer should have a change fund available during the tax collection fund to facilitate those taxes paid with cash.

This report is intended solely for the information and use of the Township Board.

Gillett Halvorsen & Leonhardt PC

Gillett, Halvorsen & Leonhardt, P.C.
Certified Public Accountants

September 7, 2004
Sault Ste. Marie, Michigan